

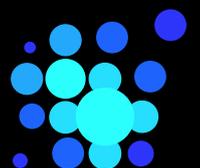


# Forecourt Property Market Update

2014

**Barber Wadlow**

Fuel and Automotive Property Advisers



# Forecourt Property Market Update - 2014

According to Barber Wadlow Research, 240 forecourts have been sold and let in the last 12 months, representing only 22% of the previous year's level of transactions. Whilst the volume of sales and lettings was down, there were a number of high profile transactions involving major operators that ensured a fascinating period, resulting in a 14% increase in values.\*

## 2013 Market highlights include:

- **BP** continue to acquire sites for M&S rollout on a nationwide basis. **Barber Wadlow** advises vendors/landlords on various transactions.
- **Shell** enters into a lease on a 'new-to-industry' site – their first (excluding motorway sites) since 1998. Developer advised by **Barber Wadlow**.
- **Morrisons** and **Asda** continue to add new sites – Asda recently advertised their ambition to grow their standalone petrol filling station network to 100 sites by 2018.
- **Sainsbury's** open their first standalone forecourt with c-store; their first in a pipeline of sites.
- Major independent retailers, **EuroGarages** and **MRH**, acquire regional portfolios from **Esso**.
- **Petrogas** doubled their network in 2013, adding 19 outlets. **Barber Wadlow** lets x3 sites to Petrogas.
- **Midland Co-Op** acquires **Shaws Petroleum** (x5 sites) and inherits 8 sites through their merger with **Anglia Co-Op**.

The UK forecourt network continues to rationalise, with the loss of 187 sites in 2013 to 8,590, according to Experian Catalyst. This process is generally separating the "wheat from the chaff", ensuring a more refined and better quality retail network. Indeed, there were 61 new-build sites over the year, demonstrating how the network is evolving to keep up with modern retail standards.

Although supermarket operators are still making their presence felt - adding 143 sites over the last five years - improved economic conditions have ensured that the better quality oil company and independent dealer sites have seen increased sales and margin over the last 12 months.

Shop sales continue to move upwards, with average sales per site increasing to £546,000 per annum. Convenience store (c-store) sales now account for circa 20% of national food sales and are forecasted to increase 29% by 2017. Supermarkets are actively growing their c-store networks and it is expected that forecourts will be used to continue growth of their businesses. Indeed, Sainsbury's and M&S are acquiring forecourts to accommodate c-stores, whilst Asda have ambitions for 100 standalone sites following the opening of a pilot in Sale (Manchester) which incorporates its 'Click & Collect' facility.

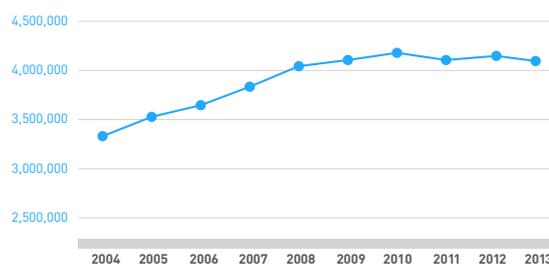


Barber Wadlow sells site in Gloucester to BP/M&S

Notwithstanding this, the concern for the Government and its energy resilience policy is that the "chaff" makes up an important part of the network, often servicing rural areas, and its loss is creating "fuel deserts", or sites with a monopoly position that are able to exploit the market. This is not, however, an issue for property investors in the sector – in fact, it's an opportunity, helping to protect property values.

Average fuel sales per site remain broadly stable, although a 1.6% drop was recorded during 2013 based upon Experian Catalyst research. Supermarkets actually saw the largest decline (circa 3.5%), which is likely to be due, in all probability, to less aggressive pricing policy in many areas and retention of improved margins.

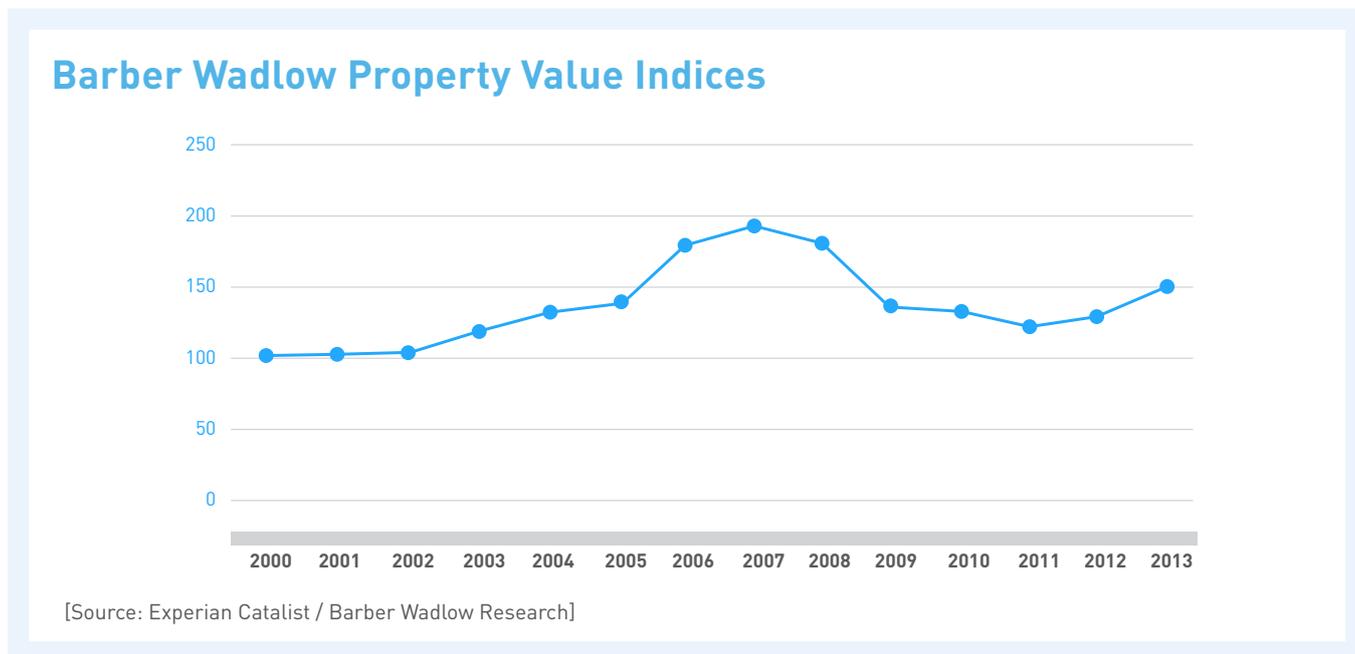
## 1.6% drop in average UK site fuel sales in 2013



[Source: Experian Catalyst]

# Petrol Station Property Value (PSPV) Indices

Barber Wadlow's Petrol Station Property Value Indices\* (in association with Experian Catalist) has recorded a 14% increase in value during 2013, buoyed by a healthy trading period and a dearth of available opportunities.



The improvement in value, which is the largest annual increase since 2006, has principally been driven by a dearth of available sites. With oil company divestment programmes slowing down, and disposals subject to less attractive fuel supply agreements, those seeking to expand are finding the market increasingly competitive.

Barber Wadlow has once again been involved in individual property transactions up to a value of £3m, with the major oil companies and supermarket giants generally responsible for the higher value deals. But, transactional activity is not confined to the major players – smaller, independent retailers have also been acquiring sites. The ability to fund transactions has been enhanced on the back of improved trading conditions, as well as better availability of bank finance, but make no mistake, banks are still fussy – with greater focus on quality of company management – and so the forecourt sector is becoming increasingly ‘corporatised’.

The range of values has never been greater. Petrol filling station property values analysed on a pence per litre (ppl) basis range from 10ppl – 60ppl (i.e., property price divided by annual fuel volume). The principal variable is shop sales, which now hugely influence what the market is prepared to pay for a site. Historically, the valuation yardstick for freehold forecourts was £1 per gallon – it can now be closer to £3 for the extra special sites!

## Examples of Barber Wadlow Transactions in 2013



**Ilkeston:** Letting to Petrogas Group UK Limited



**Suffolk:** Letting of new site to Shell on A11



**St Leonard's On Sea and Peterborough:** Acquired x2 Shell sites for Motor Fuel Group

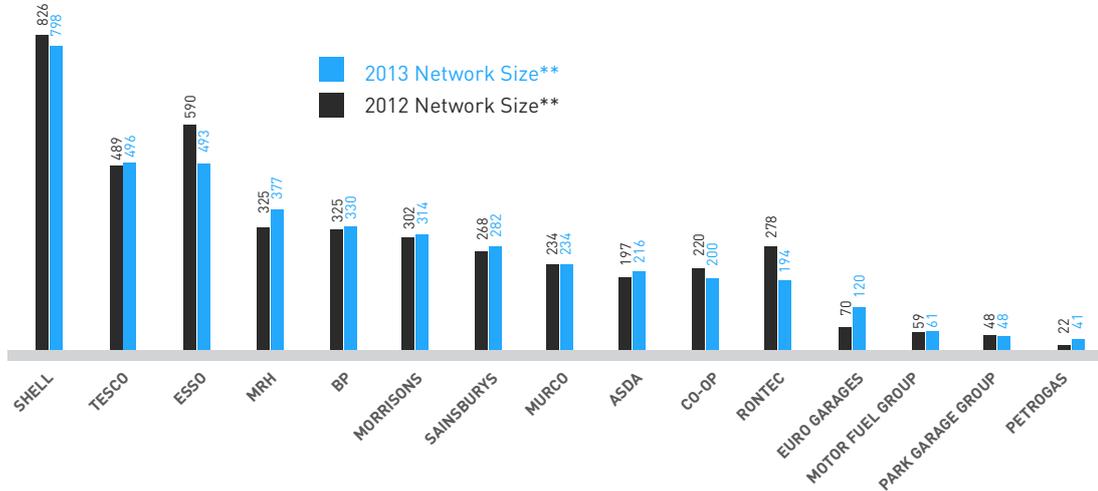


**Luton:** Letting to Petrogas Group UK Limited

# Major players in the market in 2013

Oil company disposals in 2013 account for 48% of all transactions.

## Top 15 Forecourt Retailers



[Source: Forecourt Trader / Experian Catalist / Barber Wadlow Research]

\*\* Size of company-owned network only. Does not include sites supplied by oil company.

Oil company rationalisation dominated the transactional market in 2013, with the total number of oil company sites sold / let estimated at 116.

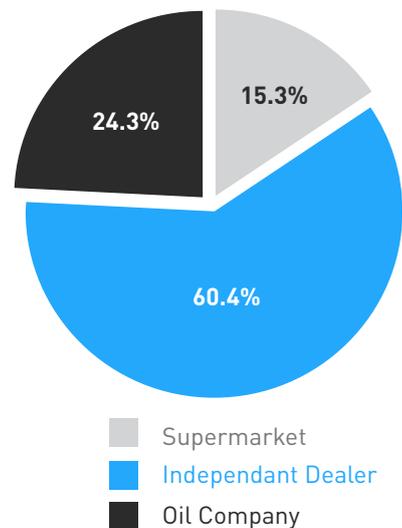
The biggest divestor was Esso, disposing of nearly 80 sites. In addition, the oil company giant announced in January 2014 the disposal of 84 sites (located in the Midlands and South West) to Rontec and Euro Garages, which will bring its total network down to 409 sites by the end of 2014. It remains to be seen what the oil company will do with its remaining sites, which include 198 Tesco Express outlets.

The big four supermarkets continue to grow and, whilst they have all been acquiring existing sites, a significant proportion (circa 75%) of their expansion so far has been development of new petrol filling stations within their own store car parks.

The major independent retailers have capitalised on oil company disposals, with the top six companies adding 123 sites in 2013. The largest increase in network size was recorded by MRH and Euro Garages (adding 52 and 50 sites respectively). Irish retailer, Petrogas, grew its UK network by a massive 86%.

Despite the growth of the major independent operators, the sector remains tremendously fragmented. Shell's company-owned network has an outlet share of 9.3% and the top six independent retailers combined account for only 16% outlet share. With nearly two thirds of all UK sites still independently owned, further consolidation seems inevitable.

## UK forecourt network - ownership split



[Source: Experian Catalist]

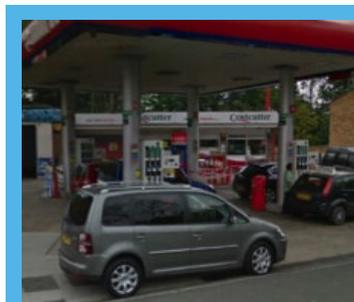
# Forecourt Investment Market

Prime yields continue to be squeezed and transactions as low as 5% NIY have been recorded in 2013. This pricing is driven by long term leases, guaranteed rental growth, blue chip tenants and high quality facilities.

Investors in the sector range from major institutional funds to private individuals who are recognising the value that petrol stations can offer over and above similar asset classes such as standalone c-stores and supermarkets. Indeed, assuming an identical tenant and lease length, there could be as much as 0.5% - 1% yield difference between the asset classes.

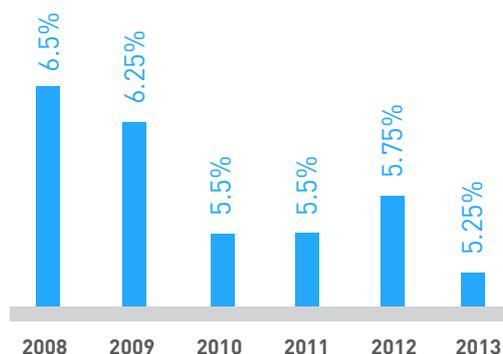
Interestingly, forecourt operators themselves are starting to buy petrol filling stations with tenants in occupation as investments, knowing that if the tenant defaults, they can step in and operate the site, potentially far better than the previous incumbent. It is therefore a relatively risk-free opportunity, particularly as vacant possession values often represent 80% - 100% of investment value (and sometimes more).

## Example of Barber Wadlow investment transactions in 2013



**Morden, Surrey:** Let to Murco Petroleum Limited with an unexpired term of 22 years, achieving 6.8% (NIY), demonstrating value in the sector

## Prime Forecourt Investment Yields (Net Initial Yield)



[Source: Barber Wadlow Research]

Barber Wadlow will be marketing forecourt investments during 2014. Please contact us for details.

## For further market intelligence and advice, please contact us.

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Barber Wadlow is a niche property adviser to the fuel and automotive retailing sectors, offering high-quality advice that is tailored specifically for the individual client. Barber Wadlow provides both agency and professional services ranging from investment portfolio management, through to acquisition / disposal, rent review and valuation advice. Barber Wadlow coverage includes the UK, as well as Europe.



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\* Value of the average 'bottom quarter' of oil company sites (in terms of trading performance), which is now the most representative trading profile of the sites that are coming to the market. No two forecourts' trading performance is the same, making it virtually impossible to compare one transaction with another. Barber Wadlow, working with Experian Catalist, has devised an Indices based upon opinions of value since 2000. To overcome a number of sector valuation issues, Barber Wadlow has based value on a freehold site that is unencumbered, free from contamination and fully operational, with no investment required. This research should be considered as a guide only to market conditions.